

Memorandum

TO: All City Employees and Retirees

FROM: Debra Figone

SUBJECT: Retiree Healthcare Developments

DATE: March 4, 2008

Process Update

In December of last year, I sent out an informational memorandum to all City employees and retirees on the subject of retiree healthcare. The memo discussed key background information related to retiree health issues, the City Council's direction to develop a process to address retiree healthcare, and the process by which we proposed to gather input from all stakeholders. In light of new information, this memo serves as a brief update on the efforts put forth thus far on this important issue.

As a reminder, on August 28, 2007, the City Council directed staff to:

1. Engage stakeholders in identifying strategies and alternatives to address our unfunded liability for retiree healthcare. Stakeholders will include, at a minimum, employees, City Labor Alliance, Executive Management Forum, retiree associations, retirement boards, and South Bay Labor Council.
2. Continue to survey how other cities and counties are addressing their unfunded liabilities.
3. Engage experts, identified by the Administration and stakeholders, as necessary to evaluate strategies and approaches that are identified by stakeholders or have been implemented in other cities or counties.
4. Study how pre-full funding of benefits can be accomplished through a phased approach.

The first two items listed above are nearing completion as the facilitations and survey have been successfully executed by City staff in coordination with three consultants. Starting in December of 2007, our consultants have engaged the identified stakeholders to solicit their input and capture their ideas. A report summarizing all stakeholder feedback sessions, along with a survey of other organizations who are exploring ways to comply with GASB regulations will be completed in March. As an additional resource for all stakeholder groups, a website has been created to provide relevant background information as well as the most up-to-date documentation produced from each meeting. The website can be viewed at:
www.sanjoseca.gov/retireehealthcare.

Vested Benefit

In addition, the City Council requested additional information regarding the legal issues related to changing retiree healthcare benefits. In San José retiree healthcare benefits are in the Municipal Code as part of the City's retirement plans. Because San José's retiree healthcare benefits are part of the City's retirement plans, the retiree healthcare benefit can be considered a "vested" benefit similar to the pension benefit itself. Based on this, we will not be recommending changes to retiree healthcare benefits (as specified in the Municipal Code) for current employees or current retirees at this time.

Although this information may help address the existing concerns about the possibility that the level of benefit (100% of the lowest cost plan for single or family coverage) would be changed for current employees and/or current retirees, there remains a very significant challenge in funding the benefit. The unfunded liability is currently between \$1.2 and \$1.65 billion, and we will continue to face the challenge of paying the long-term costs of providing these retiree healthcare benefits. The City and employees covered by the current benefit share an interest in addressing the costs of retiree healthcare benefits for many reasons, including that the Municipal Code specifies that the costs are shared between the City and employees.

Per the Municipal Code, cost-sharing for retiree medical insurance is split 50/50 between the City and employees. (For retiree dental insurance, the costs are shared between the City and employees at a ratio of eight to three.) In addition to funding the costs of the benefit for current employees and current retirees, we must continue to work together on other solutions to mitigate the significant cost of healthcare, including wellness programs and plan design changes.

I encourage you to continue participating in this process as we move forward. As requested by the City Council, staff will conduct further research and compile the information into a report which will offer ways to accomplish full pre-funding of benefits through a phased approach. It is imperative that the City of San José continue to learn and engage in solutions towards funding this significant liability.



Debra Figone
City Manager